TO:	**GENERAL COMMITTEE**
SUBJECT:	**LONG-RANGE FINANCIAL PLAN AND FINANCIAL POLICY FRAMEWORK UPDATE**
WARD:	**ALL**
PREPARED BY AND KEY CONTACT:	**C. GILLESPIE, SENIOR MANAGER, CORPORATE FINANCE AND INVESTMENTS EXT. 5743**
SUBMITTED BY:	**C. MILLAR, DIRECTOR OF FINANCE AND TREASURER**
GENERAL MANAGER APPROVAL:	**D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES**
CHIEF ADMINISTRATIVE OFFICER APPROVAL:	**M. PROWSE, CHIEF ADMINISTRATIVE OFFICER**

RECOMMENDED MOTION

1. That the Watson and Associates Economists Ltd. (Watson) Long Range Financial Plan attached as Appendix “A” to Staff Report FIN018-21, be received.

2. That the existing Financial Policies Framework be replaced with the revised Financial Policies Framework as identified in Appendix “B” to Staff Report FIN018-21.

3. That the following strategies be implemented to strengthen the City’s financial position:

   a) That beginning in 2023, the contribution to the Dedicated Infrastructure Renewal Fund (Tax Capital Reserve) be increased to 1%;

   b) That beginning in 2023, allocate 50% of the Barrie Hydro Holdings Inc. dividend to the Tax Capital reserves and the remaining 50% to the Reinvestment Reserve;

   c) That staff be directed to bring forward an updated Development Charge Background Study and related by-law in 2023 and a proposed new Community Benefit Charge;

   d) To consider revising the phasing requirements in the Official Plan for the Salem and Hewitt’s Secondary Plan areas to ensure that future phases are not unreasonably developed before areas where capacity currently exists; and

   e) That traditional front-ending agreements or credit agreements with longer payback periods be requirement for any Capital works in Phases 2 and 3 of the Salem and Hewitt’s Secondary Plan areas.

PURPOSE & BACKGROUND

4. The City's Financial Policy Framework has a target for updating the Long-Range Financial Plan (LRFP) and related policies every 4 years. The current report being presented meets this deadline, with the last LRFP report presented to Council on November 22, 2017.

5. The City of Barrie is expected to experience significant population and employment growth over the next few decades. To be able to meet the Province of Ontario's Growth Plan forecast for 2041 (and the recent update to 2051), Barrie's annual population has to grow by around 5,000 new residents per year.

6. The purpose of the LRFP was to assess the current financial condition and pressures facing the City, including a review of the existing financial policies and practices. Some of these pressures include slower than expected growth, the cost of maintaining and replacing current and future assets, and aligning the building out of the City with the Community Vision of the Official plan – with healthy, complete and diverse communities.

7. In response to questions from General Committee during the October 4th 2021 LRFP presentation regarding targeting help towards affordable housing, Watson included a survey of "Best Practices" (see Appendix "A" of Watson Report) of Staff Report FIN018-21 outlining the programs that other municipalities are using to incentivise affordable housing developments.

8. This staff report presents the findings of the LRFP, recommends changes to the corporation's Financial Policies Framework and identify strategies that will improve the long-term financial sustainability of the City.

9. The Financial Policy Framework attached in Appendix "B" to Staff Report FIN018-21 has also been updated to reflect recent Council approved financial policy changes since November 2017. This includes the investment section which now reflects the City's adoption of the Prudent Investor Standard

ANALYSIS

10. To be financially sustainable, the City needs to manage the financial resources of the corporation. It does this by considering how to best use available reserves and debt in a way that will allow the City to pay for its capital plan. The capital plan has to be designed so that the City can accommodate growth as forecasted. This Long-Range Financial Plan does not include consideration of the financial impact of funding requests that may be forthcoming from organizations such as Georgian College and Royal Victoria Regional Health Centre, as the magnitude of the requests was not known at the time of the preparation of the plan. This all needs to be considered over the longer-term such that no one generation is paying at the expense of another.

The City of Barrie's Current Financial Position

Capital Plan required to meet growth targets and asset management needs to 2041 is almost $8.4b

11. Tax-supported capital requirements for the City through to 2041 were estimated to be $6.5 billion, of which $3.1 billion was for repair and replacement of assets and $3.4 billion was for growth. Roads and related infrastructure account for almost two-thirds of this growth number ($2.2 billion).

12. Rate-supported capital requirements for the City through to 2041 were estimated to be $1.9 billion of which $1.1 billion was for repair and replacement of assets and $0.8 billion was for growth.

13. Development Charges (DC's) are expected to fund $3.7 billion of the $4.2 billion in growth, with reserves and debt issuance funding the remaining growth and non-growth portions.

Low reserve balances will put pressure on City to issue more debt

14. The LRFP highlighted the importance of the Capital and DC Reserves, both of which are not funded to the level needed to pay for expected growth.

15. While capital reserves have a reasonably healthy balance at the end of 2020 of almost $130 million, there are significant carry-forward amounts that need to be funded from these reserves, which use up the available capacity. As a result, there are insufficient existing balances to address future needs and significant debt financing will be required over the forecast period to fund required expenditures.

16. The City prebuilt infrastructure to allow for growth such as the building of the current Surface Water Treatment Plant and expansion of the Waste Water Treatment Facility. Each of these projects require annual debt financing charges of almost $15 million funded from development charges. Overall, the forecasted growth has not come in at the pace expected, and this has resulted in lower DC revenues and lower DC reserve fund balances. At the end of 2020 the DC reserves balances had a deficit position of $36M. Out of this amount, water and wastewater DC reserves had a deficit of $81 million, while roads DC reserves had a positive balance of $48M.

Debt will peak in 2027 at $750 million based on Watson's assumptions

17. Based on the capital requirements noted above and the reserve funding available, outstanding debt is forecast to peak in 2027 at almost $750 million, of which almost $500 million will relate to DCs. The debt level is then forecast to fall and remain steady around the $600 million level.

18. Based on these forecasts, the City will remain within the Provincially mandated Annual Repayment Limit (ARL).

19. The ARL limits the amount of debt a municipality can issue to a level where the annual debt charge payments are no more than 25% of the City's own source revenues. However, the projections show that the City will go above its own internal policy of 20% around 2029. This will be something Finance will monitor. There is enough time and there are a number of options available to ensure that the City stays within this self-imposed limit, and does not result in any pressure on the City's credit rating.

Key Recommendations to Strengthening the City's Financial Position:

Increase to Dedicated Infrastructure Renewal Fund

20. Existing asset replacement needs are not currently being met in the first ten years of the forecast for tax-supported services. This may increase risk to the City and/or result in additional pressure on the tax levy increases to undertake the additional capital works

21. However, City Council established a Dedicated Infrastructure Renewal Fund to address ongoing asset replacement needs. The contribution was originally set at 1% of the property tax levy, although was reduced to 0.25% in 2021. Increasing this back to 1% will help to get the infrastructure gap back under control.

Allocate 50% of the Barrie Hydro Holdings Inc. dividend to the Tax Capital reserves

22. The LRFP highlighted that there are significant non-growth capital expenditures anticipated over the forecast period. Given that tax capital reserves are currently maintained with minimal balances, significant debt financing is required. These debt payments must be funded through the general levy.

23. One area of revenue which can help to mitigate this issue is the Barrie Hydro Holdings Inc. (BHHI) dividend. Forecasts of what the City may expect to receive from this dividend show this could bring in around $70 million between 2021 and 2030.

24. If 50% was directed towards the Tax Capital Reserves, this would boost these reserves by $35 million, which would otherwise have had to be debt-issued. With the debt forecast peaking around $750 million (see Figure 7-5 on pages 7 to10 of the LRFP report in Appendix "A" of Staff Report FIN018-21), this could make a noticeable improvement and would be a positive indicator for the credit rating agency.

25. The remaining 50% can be directed to the Reinvestment Reserve up to a maximum year-end balance of $10 million - the Reserve is designed to be used to fund projects and initiatives deemed to have significant strategic and/or community benefit. After the $10 million is reached, the remaining percentage should be directed to the Tax Capital Reserves

DC Background Study and By-law update in 2023 and a proposed new Community Benefit Charge

26. Development charges are an important revenue source for the City, with $3.7 billion of the $8.4 billion capital plan being funded from this (see Table ES-1 on page ii of the LRFP).

27. Analysis performed by Watson showed that development charges are between 8 to 9% below the level they should be charged at any DC that is not being charged at the fair rate will be subsidized by (or benefit) future developers. Therefore, an updated DC study is recommended.

28. Additionally, the suggested timing for the new Background Study can be set up to align with the introduction of a new Community Benefits Charge (CBC) to be used when Section 37 is repealed. A Community Benefit Charge (CBC)can be established to fund growth related costs not collected elsewhere. These programs may include things like parking, affordable housing, landfill, arts and culture, etc. This may create between $1-$2 million per year up to 2051.

Consider revising phasing requirements in the Official Plan and require traditional front-ending agreements or credit agreements with longer payback periods for any Capital works in Phases 2 and 3 of the Salem and Hewitt's Secondary Plan areas

29. For phase 1 of the Salem and Hewitt's Secondary Plan area, the City entered into a Memorandum of Understanding (MOU) with Landowners. The MOU identified projects to be financed and built by developers along with an additional capital contribution per unit. The terms of the MOU do not extend beyond phase 1 of the Salem and Hewitt's Secondary Plan area.

30. The City and landowners are investing in capital infrastructure to build capacity to allow development in phase 1. The City's finances require full development in phase 1 to happen sooner in order to payback for the capital costs, but also to pay for the operating costs of servicing these new developments (i.e., snow clearing, garbage collection, parks maintenance etc).

31. Before any new capital investments are made for phase 2 or phase 3 developments, the capacity built by the City and landowners in phase 1 should be appropriately utilized to accommodate growth. Otherwise, the landowners in phase 2 and phase 3, will need to front end the costs of any capital works but will not receive payback until near full build out of the lands.

Financial Policies Framework updates

32. Proposed changes to the City's Financial Policies Framework have been provided in Appendix "B" of Staff Report FIN018-21. The objectives of the proposed changes are to improve the City's financial condition by building reserves, protecting the City's credit rating and also to include the new Investment Policy Statement and Capital Financing and Debt Management Policy. Highlights of the sections with changes follow:

    a) Strategic Initiatives and Enhancements: minor change – Community Benefit Reserve revised to include new name (Reinvestment Reserve)

    b) Debt: This has been updated to provide a high-level overview of the Capital Financing and Debt Management Policy.

    c) Investments: This has been replaced and now provides a high-level overview of the Investment Policy Statement

    d) Budgeting: This had previously stated that an operating budget forecast for the next three years be considered. Proposed changing this to consider the operating budget for the term of Council.

    e) Reserve/Reserve Fund Management: this now incorporates the recommendations made in this report regarding how to utilise the BHHI dividend. It also proposes lowering the target range for the stabilization reserves to 5 to10%, which is in line with many similar sized cities

    f) Capital Project Financial Control Policy: suggests removing the Holding Accounts and using Tax Capital Reserves to pay for any capital projects that go over budget

ENVIRONMENTAL AND CLIMATE CHANGE IMPACT MATTERS

33. There are no environmental and climate change impact matters related to the recommendation.

ALTERNATIVES

34. The following alternatives are available for consideration by General Committee:

Alternative #1 General Committee could maintain the DIRF contribution below the 1% suggested.

This alternative is not recommended as it will lead to an increase in the infrastructure gap and lead to either higher future tax rates or a deferral in capital projects

Alternative #2 General Committee could choose not to direct the BHHI contribution to the Tax Capital Reserve, or to choose a lower level of contribution.

Although this alternative is available, it is not recommended as this will put pressure on the City's financial position. The reserve position is currently below target and needs to be addressed, this should be done soon so the City moves towards its long-term financial sustainability goals

Alternative #3 General Committee could allow development in Phases 2 and 3 to allow developers in these areas to register their developments. This alternative is not recommended without traditional front-ending agreements or credit agreements with longer pay back periods as it will put an undue stress on the City's financial situation.

FINANCIAL

35. The analysis section of the report contains the financial impacts of implementing the proposed strategy.

LINKAGE TO 2018–2022 STRATEGIC PLAN

36. The recommendation(s) included in Staff Report FIN018-21support the following goals identified in the 2018-2022 Strategic Plan:

☒ Growing Our Economy

☒ Fostering a Safe and Healthy City

☒ Building Strong Neighbourhoods

37. Recommendations 3a to 3c included in this report focus on prioritizing revenues. With a more financial sustainable base, the City is better able to help growth in the economy. With the infrastructure currently in place and in plan, population growth is expected to take off, which should entice business to follow.

38. The recommendations included in this report support the goal of financial responsibility by establishing a reasonable and affordable set of strategies and policies that represent the initial step in ensuring the needs of the community are met now and in the future.

39. Recommendations 3a to 3e aim to ensure that Barrie stays financially sustainable whilst building out in the secondary plan areas. If there is a demand to build later phases before earlier phases, the City will be in stronger financial position to allow the building of these neighbourhoods.

APPENDIX “A”

Long Range Financial Plan

APPENDIX "B"

Financial Policies Framework